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**FEDERAL COMMUNICATIONS COMMISSION
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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

In the Matter of

Access Charge Reform

Price Cap Performance Review
for Local Exchange Carriers

Tariffs Implementing
Access Charge Reform

CC Docket No. 96-262

CC Docket No. 94-1

RM-9210

**ADDITIONAL REPLY COMMENTS
of the
GENERAL SERVICES ADMINISTRATION**

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Summary

GSA responds to claims that the Commission should reduce or even eliminate the X-Factor in the price cap formula. Incumbent LECs point to reductions in access charges over the past few years as evidence that market forces are constraining their prices. Also, they contend that recent productivity gains have been less significant. However, GSA explains in these Reply Comments that if reductions in access charges were actually counterbalancing productivity increases, the rates of return for most incumbent LECs would be about two-thirds of their current levels.

Indeed, contrary to the claims of incumbent LECs, the comments submitted by other parties provide strong support for a significant increase in the X-Factor. Using interstate data, which is appropriate for a procedure governing pricing of interstate services, a creditable analysis by one commenting party justifies an X-Factor in the range of 9 to 10 percent.

Moreover, data provided by end users and competitive local exchange carriers demonstrate that competition in the local exchange and switched access markets remains minimal, and there is little prospect that increases in the foreseeable future will be sufficient to drive access charges to economic costs. Therefore, GSA urges the Commission to employ a prescriptive approach as a backstop to price cap regulation. At the minimum, GSA recommends that the Commission adopt a Prescriptive Transition Plan advanced by one commenting party. This plan requires incumbent carriers to provide definite commitments on dates by which each interstate switched access rate element will be reduced to cost, and sets a maximum bound of about 30 months to achieve these cost levels.

Finally, GSA urges the Commission to reject requests for significant increases in pricing flexibility on a local basis. Geographic deaveraging should be employed to achieve cost-based pricing, but not as a criterion for pricing flexibility.

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The General Services Administration ("GSA") submits these Reply Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Commission's Public Notice ("Notice") released on October 5, 1998. The Notice invites comments and replies to update the Commission on issues concerning access charge reform and the recent performance of the incumbent local exchange carriers ("LECs") under price cap regulation.

I. INTRODUCTION

In May 1997, the Commission released orders adopting new approaches to access reform and a permanent price cap plan with an X-Factor of 6.5 percent.¹

¹ Access Charge Reform, CC Docket No. 96-262 *et al.*, First Report and Order, 12 FCC Rcd 15982 (1997) ("Access Charge Reform Order"); and Price Cap Performance Review for Local Exchange Carriers, Access Charge Reform, Fourth Report and Order in CC Docket No. 94-1 and Second

Regulators, carriers and end users have exercised opportunities to observe the operation of these plans in the marketplace for more than a year. Consequently, the Commission established this proceeding to capture the benefits of this experience and refresh the record on the effectiveness of access reform and price caps in view of the current state of competition for telecommunications services. Specifically, the NPRM invites comments and replies on three topics:

- the need to modify the productivity adjustment, or "X-Factor," in the Commission's price cap formula;
- the potential value of proposals for pricing flexibility outlined in letters by Bell Atlantic and Ameritech to the Secretary of the Commission; and
- the possible need to modify the Commission's access reform policies as described in an Emergency Petition to the Commission by MCI.²

GSA submitted Comments in this proceeding on October 16, 1996 addressing these issues.

In those Comments, GSA explained that high and increasing rates of return for the great majority of LECs under price cap regulation show that these carriers as a group have enjoyed productivity gains far greater than anticipated when the Commission established the X-Factor at 6.5 percent. Consequently, GSA urged the Commission to increase the magnitude of the X-Factor for use by these carriers in their next annual filings.³

Report and Order in CC Docket No. 96-262, 12 FCC Rcd 16642 (1997) ("Price Cap Fourth Report and Order.")

² MCI Telecommunications Corporation, Emergency Petition for Prescription, CC Docket No. 97-250, CCB/CPD No. 98-12, February 12, 1998.

³ Comments of GSA, pp. 3-7.

Moreover, GSA urged the Commission to reject requests by Ameritech and Bell Atlantic for additional pricing flexibility.⁴ GSA explained that the requests are premature because incumbent LECs still have significant control over access to the switched networks as well as the entire local telecommunications infrastructure.

Furthermore, GSA urged the Commission to adopt most of the requests for access charge reform in MCI's Emergency Petition.⁵ Finally, GSA explained that MCI's Petition demonstrates the need to eliminate unjustified disparities in charges for different types of access facilities. Distinctions between access charges for business and residence subscribers are antithetical to open competition and also difficult to administer efficiently and equitably.

About 30 other parties also submitted comments to address the NOI. These parties include:

- 6 incumbent LECs;
- 5 competitive LECs;
- 5 interexchange carriers;
- 3 cable, wireless and other carriers;
- 4 associations of carriers; and
- 4 end users and associations of these firms.

In these Additional Reply Comments, GSA responds to the positions advanced by these parties.

⁴ *Id.*, pp. 7-10.

⁵ *Id.*, pp. 10-15.

II. CONTRARY TO ASSERTIONS BY INCUMBENT CARRIERS, THE COMMISSION SHOULD SIGNIFICANTLY INCREASE THE X-FACTOR IN THE PRICE CAP FORMULA.

A. Last year's changes in access charges do not justify a reduction in the productivity offset.

Interstate services provided by all of the former Bell operating companies, as well as the GTE and Sprint companies and eight other carriers, are under price cap regulation. For these "price cap carriers," the weighted average of the charges for all services in a basket must be less than or equal to the price cap index ("PCI"). Each year, the index is set to equal an inflation measure (the Gross Domestic Product Price Index), minus the productivity offset ("X-Factor"), plus or minus allowed exogenous cost changes.⁶

The X-Factor is included in the price cap formula to recognize two variables — (1) changes in the interstate productivity for LECs; and (2) changes in the prices that LECs must pay for the resources they require to provide interstate telecommunications services.⁷ Both variables are referenced to the overall average for the total domestic economy. Thus, if the increase in productivity (and reduction in input price levels) is expected to be six percent greater for interstate telecommunications services than for the overall domestic economy, the X-Factor should be set at 6.0 percent, plus any consumer productivity dividend that the Commission believes is appropriate.

In 1997, the Commission found that the most reasonable estimate of the productivity differential was six percent, and established an X-Factor of 6.5 percent for the price cap carriers under its jurisdiction.⁸ The Commission set the X-Factor at 6.5

⁶ Price Cap Fourth Report and Order, para. 16.

⁷ *Id.*, para. 29.

⁸ *Id.*, para. 18.

percent in order to reflect a 0.5 percent “consumer productivity dividend” as an additional incentive for the LECs to increase efficiency in providing interstate services.⁹

Now, according to incumbent LECs, this productivity offset should be reduced or even eliminated. In its comments, Bell Atlantic notes that under price cap regulation, LECs have reduced access rates by more than eleven billion dollars, including a \$1.5 billion reduction ordered just last year.¹⁰ Bell Atlantic contends that a reduced X-Factor would be adequate to ensure that access charges remain “at reasonable levels” until price cap regulation is totally superfluous.¹¹ Specifically, according to Bell Atlantic, the “most recent” data indicates that there is no justification for retaining an X-Factor larger than 4.4 percent.¹²

Bell Atlantic’s claim misses the mark. Certainly, incumbent LECs have reduced their interstate access charges, but the reductions in these charges — however large in magnitude — have not begun to keep pace with the increases in interstate productivity that the LECs have enjoyed. If reductions in access charges had counterbalanced interstate productivity increases, the rates of return for most incumbent LECs would be about two-thirds of their current levels.

The current productivity offset was established to recognize a target 11.25 percent rate of return, which was the industry average when the Price Cap Order was released.¹³ Thus, the benchmark provides a convenient gauge for assessing the

⁹ *Id.*

¹⁰ Bell Atlantic Comments on Notice to Refresh the Record (“Comments of Bell Atlantic”), p. 11.

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*, para. 17.

interstate productivity improvements most recently experienced by the LECs. Since the rates of return for most incumbent LECs are far above 11.25 percent, reductions in access revenues have not kept pace with cost declines.

In its Comments, GSA noted that there is overwhelming evidence of high LEC earnings. For example, GSA explained that a Commission report shows interstate rates of return for the Bell holding companies ranging from 10.3 percent to 18.2 percent in 1997.¹⁴ Other interstate carriers under price cap regulation also reported very high rates of return for 1997. For example, of the 46 GTE companies, 41 acknowledged rates of return greater than 11.25 percent for the year. Of 13 Sprint companies, none reported a rate of return less than 11.25 percent. Moreover, of the eight additional price cap carriers reporting to the Commission,¹⁵ only two reported rates of return less than 11.25 percent.

In summary, a comparison of the actual rates of return experienced by price cap carriers with the 11.25 percent standard demonstrates that the existing 6.5 percent X-Factor has not offset the interstate productivity gains enjoyed by the incumbent LECs. Therefore, the Commission should increase the X-Factor, forcing greater reductions in the charges for interstate access services in the next annual filings by the LECs.

B. The Commission should reject claims that model updates show that productivity growth has declined.

The United States Telephone Association ("USTA") presented data purporting to demonstrate that trend forecasts used by the Commission to compute the X-Factor

¹⁴ Comments of GSA, pp. 4-5, citing Industry Analysis Division, *Trends in Telephone Service*, July 1998, Table 14.1.

¹⁵ Alliant Communications Co., Cincinnati Bell Telephone Co., two Citizens Telecommunications Companies, three Frontier Telephone Companies, and the Southern New England Telephone Co.

have not materialized.¹⁶ According to USTA, application of the current statistics shows that the X-Factor should be no greater than 4.5 percent.¹⁷ Incumbent LECs, including Ameritech and Bell Atlantic, also point to results using the updated data in their comments, and similarly urge the Commission to reduce the X-Factor.¹⁸

GSA urges the Commission to determine that these “updates” do not justify reducing the X-Factor, even if the Commission finds that direct substitution of the newer data in the 1997 model shows a decline in total factor productivity. The 1997 model reflects totals for the interstate and intrastate operations of the incumbent LECs, which are not a valid basis for setting the X-Factor in the Commission’s interstate price cap formula.

While it may have been appropriate in the past to combine interstate and intrastate data in computing productivity changes, shifts in markets and as well as technology changes provide reasons to calculate the X-Factor in the price cap formula with specifically interstate data. As Ad Hoc explains in its comments, secular growth characteristics, competition levels, and technologies for interstate and intrastate services have diverged.¹⁹

A recent Commission report shows that growth rates for interstate and intrastate services have differed dramatically.²⁰ While the predominate intrastate service — individual subscriber access lines — has grown by approximately 4 percent per year

¹⁶ Comments of USTA, pp. 20-21 and Attachment D.

¹⁷ *Id.*, p. 22.

¹⁸ Comments of Ameritech, p. 17; and Comments of Bell Atlantic, pp. 11-16.

¹⁹ Comments of Ad Hoc Telecommunications Users Committee (“Ad Hoc”), pp. 12-19.

²⁰ Industry Analysis Division, *Trends in Telephone Service*, released July 1998.

nationally, interstate switched access minutes have experienced annual growth rates in the vicinity of 9 percent.²¹

Technological changes also differ markedly as between interstate and intrastate services. As Ad Hoc explains, subscriber access facilities, which are principally allocated to the intrastate jurisdiction, generally employ a stable technology (copper loops) and exhibit a high labor component for installation, maintenance, and customer service.²² In contrast, services such as interstate switched access have been significantly modified by major technological developments with sharply declining cost functions, such as digital switching, Signalling System 7, and the Advanced Intelligent Network.²³

In its comments, Ad Hoc quantifies the impacts of these and additional differences between interstate and intrastate services on the productivity changes experienced in six recent time periods. For each of six time periods, all culminating in 1995, the X-Factor developed on the basis of interstate data is nearly two times the corresponding factor based on total company results.

The table on the following page, abstracted from Ad Hoc's comments, summarizes these relationships.

²¹ Comments of Ad Hoc, p. 10 referencing *Trends in Telephone Service*.

²² Comments of Ad Hoc, p. 13.

²³ *Id.*

Summary of Average X-Factors Using FCC Methodology²⁴

Years in Average	Total Company	Interstate
1986-1995	5.2 %	9.4 %
1987-1995	5.9 %	10.3 %
1988-1995	6.0 %	10.5 %
1989-1995	6.1 %	10.1 %
1990-1995	5.8 %	10.4 %
1991-1995	5.2 %	9.6 %

For interstate services, productivity improvements for these time periods ranged from 9.4 percent to 10.5 percent.²⁵ However, on a total company basis — including interstate and intrastate services — productivity changes ranged only from 5.2 to 6.1 percent.

The Commission established an X-Factor of 6.0 percent in view of the overall company data referenced above.²⁶ As Ad Hoc observes, applying analogous reasoning to the interstate data suggests an X-Factor in the range of 10.0 to 10.5 percent.²⁷ In fact, any averaging process employing this data argues forcefully for an X-Factor of at least 9 percent.

²⁴ *Id.*, Table 1 on p. 23, Total Company figures from Chart D1, FCC Staff analysis, Appendix D, Access Charge Reform Order. Interstate figures developed by Ad Hoc from Appendix D of that Order.

²⁵ *Id.*,

²⁶ Access Charge Reform Order, paras. 138-140.

²⁷ Comments of Ad Hoc, p. 23.

GSA urges the Commission to employ interstate data in determining the need for changes in the X-Factor in the interstate price cap formula. Interstate productivity changes, as well as the LECs' earnings discussed previously in these Comments, support a significant increase in the X-Factor, rather than the reduction sought by the incumbent carriers.

C. The Commission should reject claims that productivity increases cannot be sustained.

Apart from the issue of whether total or interstate results should be employed to gauge major recent productivity improvements, incumbent LECs contend that the effects of increasing competition and access rate restructuring will cause reductions in the future potential for productivity improvements. For example, USTA claims that the recent shift from per-minute to per-line access charges for price cap carriers will decrease productivity growth.²⁸ According to a study cited by USTA, the transition to flat recovery of common carrier line costs will cut the growth in total factor productivity by 0.4 percent each year.²⁹

USTA's contentions conflict with economic theory and also with the empirical data. Changes in the access charge structure to recover non-traffic sensitive costs with fixed monthly charges instead of usage rates will have the effect of stimulating rather than dampening revenue growth for the LECs. Usage of the telecommunications network is far more price elastic than access to the network. Thus, the increases in revenues resulting from the cuts in usage rates will be larger than the reductions in revenues owing to the increases in fixed monthly charges.

²⁸ Comments of USTA, p. 27.

²⁹ *Id.*

These predictions are confirmed by the LECs' own reports. As AT&T notes in its comments, the most recent data indicates that the sharp upward trend in the earnings of price cap carriers is continuing unabated. This data is summarized in the table below.

Aggregate Interstate Rate of Return for Price Cap Carriers³⁰

Year	Rate of Return
1991	11.78 %
1992	12.42 %
1993	13.12 %
1994	13.58 %
1995	14.02 %
1996	15.15 %
1997	15.64 %

As shown by the companies' own reports, the interstate earnings levels of the price cap LECs have steadily increased, reaching unprecedented levels of more than 15 percent in 1996 and 1997. As AT&T explains, it is notable that the carriers had their greatest interstate average rate of return — 15.64 percent — in 1997, the year in which they were required to make substantial reductions in their interstate access

³⁰ Comments of AT&T, p. 23. Rate of return figures are based on price cap carriers' final annual reports, except for 1997, which is based on initial and revised reports filed by May 1998.

charges as a result of the increase in their X-Factor and the reinitialization of their price cap indices.³¹

Indeed, the price cap carriers' most recent rate of return is 439 basis points higher than the Commission-prescribed target of 11.25 percent. The dramatic increase is a strong demonstration of the substantial productivity improvements experienced by these LECs. The companies' combined return — far above the previously established level — confirms that the existing offset substantially understates productivity growth. Recent trends have reinforced rather than negated this conclusion.

III. NOTWITHSTANDING REQUESTS BY CARRIERS, THE COMMISSION SHOULD IMPLEMENT A PRESCRIPTIVE BACKSTOP WITH FIRM DEADLINES FOR ACCESS CHARGE REDUCTIONS.

The basic assumption of greater regulatory flexibility is that increasing local competition will create downward pressure on switched access charges.³² However, as shown by the preceding discussion, experience in the most recent months demonstrates that local competition has not had the anticipated effects, which should have provided significant cost savings for end users.

The Competitive Telecommunications Association ("CTA") explains in its comments that unexpected setbacks in implementing the Commission's rules, as well as roadblocks posed by the incumbent carriers, have seriously thwarted the Commission's hopes to rely on local competition to unleash sufficient competitive

³¹ Comments of AT&T, p. 23.

³² Access Charge Reform Order, paras. 259-299.

pressures to lower switched access charges.³³ Moreover, CTA notes, "it is unclear at this time whether the market-based approach can ever be effectively revived."³⁴

As a representative of the firms that are attempting to compete effectively with the incumbent carriers, CTA outlines a "Prescriptive Transition Plan" for achieving the benefits of competition more expeditiously. The major requirement of CTA's plan is that the incumbent carriers' July 1999 price cap filings include definite commitments to dates by which each interstate switched access rate element will be reduced to cost.³⁵ In any event, all rates must be reduced to cost-based levels by July 2001, with some elements such as transport charges transitioning to costs much earlier.³⁶

To implement the plan efficiently, CTA suggests that costs be gauged by the rates for the equivalent unbundled network elements ("UNEs") determined by each of the state commissions with jurisdiction over the incumbent carrier. Since most state regulatory bodies have conducted hearings to determine the appropriate cost basis for interconnection charges and UNE prices during the past 18 months, CTA's approach will prevent further delay in achieving rate reductions.³⁷

Incumbent LECs contend that prescriptive approaches such as the plan proposed by CTA should not be accepted. For example, USTA asserts that prescription of access rates "represents bad economic and public policy."³⁸ USTA submits an affidavit by an economist discussing how prescriptive regulation

³³ Comments of CTA, pp. 2-4.

³⁴ *Id.*

³⁵ *Id.*, p. ii.

³⁶ *Id.*

³⁷ *Id.*, p. 8.

³⁸ Comments of USTA, p. 10.

undermines the incentives in price caps, destroys regulatory credibility, and disrupts long-run market dynamics.³⁹ Moreover, Ameritech claims that prescription is not necessary because price cap regulation is already lowering access rates.⁴⁰

GSA urges the Commission to place little weight on claims that the market is acting to bring access charges to cost levels. Indeed, there have been some reductions in access charges, but they fall far short of the requirement, as shown by the excessive (and increasing) earnings levels discussed above.

Moreover, as AT&T notes, competition in the local exchange and switched access markets remains minimal, and there is little prospect that increases in competition in the foreseeable future will be sufficient to drive access charges to economic costs.⁴¹ AT&T explains that comments on the petition for rulemaking filed by the Consumer Federation of America in the instant docket, as well as petitions for reconsideration of the Commission's Fourth Report and Order in CC Docket No. 94-1, demonstrate the effectiveness of the incumbent LECs' efforts to forestall competitive entry into their markets:

[m]any parties noted the devastating impact of the Eighth Circuit's decision to vacate 47 C.F.R. § 51.315(b) concerning combinations of network elements, a decision which has since opened the way for the LECs to impose myriad anticompetitive restrictions on the use of network element combinations that has rendered them infeasible as a practical matter. The commentators also documented many other anti-competitive strategies adopted by the LECs, as well as their campaign of endless litigation, on every conceivable topic and in every conceivable forum, to tie up its competitors.⁴²

³⁹ *Id.*, p. 16 and Attachment A.

⁴⁰ Comments of Ameritech, p. 7.

⁴¹ Comments of AT&T, p. 10.

⁴² *Id.*, p. 4, citing *Iowa Utilities Board v. FCC*, 117 F.3d 1068 (8th Cir.), *on rehearing*, 120 F.3d 753, *cert. granted*, 118 S.Ct. 879 (1998)

Based on their participation as end users of local exchange services in hundreds of local exchange areas, the FEAs confirm the accuracy of the statements by these parties that there is far too little competition — and far too many barriers to more competition — for local telecommunications services throughout the nation.

CTA's proposal that incumbent LECs describe their plans for reducing access charges to costs by this coming July, and accomplish this objective within two years at the most, is a pro-competitive step that would place a minimal burden on the incumbent carriers. GSA urges the Commission to adopt this requirement as a backstop to its reliance on the price cap formula, even with an increased X-factor as required to recognize interstate productivity gains.

IV. THE COMMISSION SHOULD DENY PETITIONS FOR MUCH GREATER PRICING FLEXIBILITY.

A. Ameritech and Bell Atlantic seek freedom from pricing restrictions as competition develops in specific areas.

Recently, Ameritech and Bell Atlantic made *ex parte* presentations to the Commission seeking increased pricing flexibility and other regulatory changes.⁴³ Ameritech proposed a time-phased approach with milestones for pricing flexibility. Under its proposed plan, the X-Factor in the price cap formula would be eliminated from the price cap calculations for certain LATAs when competitors have the "ability" to offer services to 25 percent of the market for both transport and switched access

⁴³ Public Notice 98-256 released October 5, 1998, p. 2.

services.⁴⁴ When competitors have access to 75 percent of these markets, services would be removed entirely from price cap regulation.⁴⁵

Both Ameritech and Bell Atlantic restate their requests for greatly increased pricing flexibility in their comments in response to the NPRM. Moreover, Bell Atlantic introduces a proposal that contains three levels of pricing flexibility up to and including removal of price regulation.⁴⁶ Bell Atlantic asserts, "At the minimum, the Commission should act to remove from price regulation those services already facing significant competition."⁴⁷

Ameritech reiterates its proposal and "acknowledges" the plan proposed by Bell Atlantic, as well as a similar proposal by USTA.⁴⁸ In its comments, Ameritech asserts that the Commission should "quickly adopt a pricing flexibility framework that reflects changes in the competitive environment."⁴⁹

GSA urges the Commission to reject these requests that the Commission virtually abandon regulatory control over the interstate services provided by the major incumbent LECs. The comments by potential competitors show that there are in fact only minor inroads into the domains of the incumbent firms.

⁴⁴ Letter from Anthony M. Alessi, Director, Federal Relations, Ameritech, to Magalie Roman Salas, Secretary, Federal Communications Commission, June 5, 1998.

⁴⁵ *Id.*

⁴⁶ Comments of Bell Atlantic, p. 17.

⁴⁷ *Id.*

⁴⁸ Comments of Ameritech, p. 17.

⁴⁹ *Id.*, p. 15.

B. Current data on competition shows that more pricing flexibility is not justified.

The Association for Local Telecommunications Services ("ALTS") explains that the proposals for greater pricing flexibility confuse competitive potential with actual competition.⁵⁰ For example, the triggers in Ameritech's proposed plan address the capability of competitors to provide services to a percentage of a market area. As GSA noted in Its Comments, the "ability" of competitors to offer services is a very nebulous concept that may be far removed from any semblance of a clear position in the market.⁵¹

In its comments, ALTS reports that according to reliable estimates, competitive LECs collectively earned only \$1.5 billion in access revenue in 1997.⁵² Assuming as an upper limit that all of this revenue were interstate, it amounts to about seven percent of the \$20 billion total that incumbent LECs obtain from interstate access charges each year.⁵³

The potential for competitive LECs to obtain a significant share of access revenues and to participate actively in a competitive marketplace is best measured by the share of the local access facilities that they provide to end users, since local access is the gateway to the switched network required to provide almost all telecommunications services. Responses to the Commission's "First CCB Survey on the State of Local Competition, March 27, 1998" provide a recent and consistent measure of the competition for local access. Data presented by Ad Hoc in its

⁵⁰ Comments of ALTS, p. 7.

⁵¹ Comments of GSA, p. 8.

⁵² Comments of ALTS, p. 6, n. 10.

⁵³ *Id.*

comments shows (1) the percentage of local service lines (including Centrex lines) sold to competitive LECs for resale and (2) the percentage of service lines sold to unaffiliated carriers as UNEs. The data presented by Ad Hoc is summarized in the table below.

Local Exchange Competition as of December 31, 1997⁵⁴

Company	Percentage of Lines Provided for Resale	Percentage of Lines Provided as UNEs
Ameritech	2.3 %	0.33 %
Bell Atlantic	0.5 %	0.09 %
BellSouth	0.9 %	0.04 %
SBC	1.6 %	0.04 %
US West	1.2 %	nil
GTE	0.3 %	0.04 %
Sprint	0.2 %	nil
Total	1.1 %	0.08 %

For all carriers combined, only about 1.1 percent of access facilities are provided for resale. The percentage for UNE loops are even lower — the aggregate for all carriers is less than one-tenth of one percent. In fact, no carrier provides more than a third of one percent of its loops on an unbundled basis.

As long as competitors continue to have such a minuscule share of the market, the Commission should completely reject claims that greater pricing flexibility is

⁵⁴ Comments of Ad Hoc, Appendix i.

necessary. End users and competitive carriers still depend on the Commission's surveillance over interstate services, because the incumbent LECs still dominate in providing the facilities necessary to access the interstate switched network.

C. Geographic deaveraging should not be employed as a criterion for pricing flexibility.

The proposals by Ameritech and Bell Atlantic rely on geographically disaggregated measures to gauge the alleged requirements for implementing pricing flexibility. For example, Ameritech proposes that regulation should cease for competitive services on a "self-defined market area basis."⁵⁵ According to Ameritech, the defined area could be as small as a LATA.⁵⁶ Similarly, Bell Atlantic contends that the requirement to average conditions over an "entire study area" distorts conclusions regarding the levels of competition in specific areas.⁵⁷

GSA urges the Commission to employ deaveraging as a pro-competitive tool, but not as suggested by these incumbent carriers. As CTSI notes in its comments, "geographic deaveraging should be used to achieve cost-based pricing, not as a criterion for pricing flexibility."⁵⁸

GSA explained in its comments that the access charge system employed for price cap LECs does not match the underlying costs, because there is no basis for a difference in the Subscriber Line Charges ("SLCs") or the Presubscribed Interexchange Carrier Charges ("PICCs") for business and residence lines.⁵⁹ The

⁵⁵ Comments of Ameritech, Attachment N, p. 2.

⁵⁶ *Id.*

⁵⁷ Comments of Bell Atlantic, Statement of Robert W. Crandall, p. 14.

⁵⁸ Comments of CTSI, Inc. ("CTSI"), p. 8.

⁵⁹ Comments of GSA, pp. 10-15.

access charge structure should be modified to eliminate these distinctions. This step will also align rates and costs more closely on a geographical basis, since most business subscribers are located in urbanized areas where the access costs are lower.

Indeed, GSA urges the Commission to take any steps, including use of geographically deaveraged access charges and contract rates with term and volume discounts, that will enable access charges to model the underlying cost relationships more closely. These steps will provide more opportunities for competition to develop. However, as CTSI explains, deaveraging should be cost-based and not subject to the whims or the competitive strategies of the incumbent carriers.⁶⁰

⁶⁰ Comments of CTSI, p. 9.

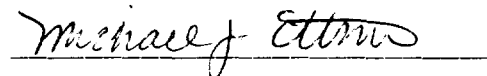
V. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Additional Reply Comments.

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November 9, 1998

CERTIFICATE OF SERVICE

I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Reply Comments of the General Services Administration" were served this 9th day of November, 1998, by hand delivery or postage paid to the following parties.

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